

Message Text

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ACTION NEA-10

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COME-00 EB-08 FRB-03 INR-10 NSAE-00 USIA-06
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INFO SECSTATE WASHDC 163
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AMCONSUL KADUNA

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E.O. 11652: NA
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SUBJECT: IBM SITUATION-INDIA

REF: LAGOS 3058

1. WITHDRAWAL OF IBM FROM INDIA WAS THE RESULT OF A DIRECT
CONFLICT BETWEEN GOVERNMENT OF INDIA (GOI) POLICY ON DI-
LUTION OF FOREIGN INVESTMENT AND IBM WORLDWIDE CORPORATE
POLICY. BOTH GOI AND IBM APPLIED THEIR RESPECTIVE POLICIES
UNIFORMLY WHICH LEFT NO MIDDLE GROUND FOR COMPROMISE.

2. GOI HAD ENACTED INTO LAW FOREIGN EXCHANGE REGULATIONS
ACT, 1973 (FERA) WHICH PROVIDES THAT COMPANIES, EXCEPT
DRUG FIRMS WITH FOREIGN SHAREHOLDINGS AND BRANCHES OF
FOREIGN COMPANIES, ARE REQUIRED TO BRING DOWN THEIR FOREIGN
EQUITY TO 40 PERCENT UNLESS SUCH COMPANIES ARE ENGAGED
PRODROMINANTLY IN EXPORT, UTILIZE SOPHISTICATED TECHNOLOGY,
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OR PRODUCE CERTAIN ITEMS SPECIFIED BY GOI OR A COMBINA-
TION OF THESE ACTIVITIES. IN SUCH CASES, FOREIGN EQUITY
MAY NOT EXCEED 74 PERCENT UNLESS COMPANY EXPORTS 100 PER-
CENT OF ITS OUTPUT IN WHICH INSTANCE IT MAY BE 100 PERCENT
FOREIGN OWNED.

3. IBM PROPOSED TO GOI THAT ITS ACTIVITIES IN INDIA BE

BIFURCATED INTO TWO COMPANIES AS FOLLOWS:

- (1) DATE PROCESSING CENTER LOCATED IN BOMBAY, CALCUTTA, MADRAS, AND NEW DELHI WOULD BE INCORPORATED INTO AN INDIAN COMPANY IN WHICH IBM'S EQUITY WOULD BE 40 PERCENT.
- (2) SALES AND SERVICING OF COMPUTERS AND MANUFACTURING OF COMPUTER PERIPHERALS FOR EXPORT WOULD BE HANDLED BY A COMPANY IN WHICH IBM'S EQUITY WOULD BE 100 PERCENT.

4. ON 9 SEPTEMBER 1977, THE INDIAN GOVERNMENT FERA COMMITTEE DECIDED THAT ALL IBM COMMERCIAL OPERATIONS IN DOMESTIC MARKET CAN ONLY BE CARRIED OUT BY AN INDIAN COMPANY WITH MAXIMUM 40 PERCENT FOREIGN EQUITY. (THIS WOULD INCLUDE DATA PROCESSING CENTERS AND SALES AND SERVICING OF COMPUTERS.) A 100 PERCENT FOREIGN EQUITY COMPANY TO MANUFACTURE FOR EXPORT WOULD BE CONSIDERED BY GOI.

5. IBM DECIDED IT COULD NOT ACCEPT THE DECISION OF INDIAN GOVT. IBM'S ANNUAL REPORT, QUOTED BELOW, STATES ITS CORPORATE POSITION CLEARLY: QUOTE
IN NOVEMBER, 1977, AFTER REPEATED EFFORTS TO REACH AN UNDERSTANDING WITH THE INDIAN GOVERNMENT, WHICH HAD REQUIRED US TO GIVE UP 60 PERCENT OWNERSHIP OF OUR BUSINESS THERE, WE FELT WE HAD NO CHOICE BUT TO CHANGE OUR MODE OF OPERATIONS. WE BELIEVE THAT IN A HIGH-TECHNOLOGY, RAPIDLY DEVELOPING INDUSTRY SUCH AS OURS, THE NECESSARY WORLDWIDE COORDINATION OF RESEARCH, DEVELOPMENT, MANUFACTURING, SALES AND SERVICE LIMITED OFFICIAL USE

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CAN BEST BE CARRIED OUT WITH FULL OWNERSHIP OF SUBSIDIARIES. IN DISCUSSIONS WITH THE INDIAN GOVERNMENT OVER A LONG PERIOD, WE BELIEVED THAT A MUTUALLY ACCEPTABLE RESOLUTION WOULD BE FOUND. UNFORTUNATELY, THIS DID NOT COME TO PASS, AND WE HAVE ACCORDINGLY PHASED OUT OUR BOMBAY PLANT AND WILL PHASE OUT OUR MARKETING AND MAINTENANCE OPERATIONS IN INDIA BY MID-1978.

SUBJECT TO THE APPROVAL OF THE INDIAN GOVERNMENT, WE WILL MAINTAIN A LIMITED PRESENCE IN INDIA BY ESTABLISHING A LIAISON OFFICE WHERE WE CAN RECEIVE AUTHORIZED REQUESTS FOR OUR PRODUCTS AND SERVICES. UNQUOTE.
GOHEEN

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